

ATTACHMENT 1

AGENDA ITEM

AUGUST 144

Retiree Health Care Trust – Proposed Creation

Date: August 1, 2006

To: Members of the Board Committee on Planning, Program Development and Budget
Members of the Board of Governors

From: Peggy Van Horn, Chief Financial Officer

Subject: Retiree Healthcare Trust – Proposed Creation

Executive Summary

The State Bar of California offers post retirement health and vision benefits to executive staff employees who have met certain criteria established in the rules and regulations relating to the employment of executive staff. In order to better manage and control the cost of this retirement benefit, staff proposes the creation of a trust agreement that will account for the funding of the retiree healthcare obligation by utilizing higher yield investment options than those allowed for use in investing general government funds. California Government Code Sections 53620-53622 allows the proposed trust to invest retiree health funds in a diversified, long-term investment portfolio. These code sections explicitly provide the investment discretion necessary to optimize long-term returns while appropriately reflecting risk, liquidity and other objectives.

BACKGROUND

The State Bar's rules and regulations pertaining to the employment of executive staff employees provide for a health and vision post retirement benefit. In order to receive the benefit, an executive employee must have completed 15 years of service and elect to receive retirement distributions from the California Public Employees Retirement System within six months of the employee's termination. At present, the State Bar accrues the annual cost of this benefit based upon current actuarial assumptions, reports the expense in the State Bar's General Fund, and invests the monies in accordance with the State of California's requirements for the investing of governmental funds.

During the year, staff from General Counsel, Finance and Human Resources has reviewed several options for the treatment of this benefit that will allow the State Bar to maximize the investment income of the monies set aside for the purpose of funding this benefit and to reduce the State Bar's unfunded liability. Staff is in the process of consulting with actuaries and attorneys who specialize in employment benefits to identify the best options for accomplishing the State Bar's goals. Based on the expert advice received, the establishment of a trust fund to maintain the State Bar's contributions would allow the State Bar the ability to invest these contributions in equity as well as fixed income mutual funds that in turn should reduce the State Bar's future costs.

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FISCAL IMPACT

Over the past thirty years, equity indexes have averaged an annual return of approximately 11%. A rise in investment income from the current average return for fixed income investments of 4% to a higher return of 7% is expected to reduce the Bar's expenditures by \$12 million over a 30-year period. Staff proposes the use of the Fidelity Investment's family of mutual funds as the initial investment vehicle for the trust's assets. A similar approach has already been successfully applied to the Bar's deferred compensation plan. Staff in coordination with the State Bar's actuaries and outside counsel has developed a proposed investment policy to direct the investing activity for the trust (see attachment 1).

BOARD BOOK/ADMINISTRATIVE MANUAL

This item has no impact on the Board Book/Administrative manual.

RECOMMENDATION

Staff recommends that the Board authorize the Executive Director or her designee to create a trust in the form approved by the Office of General Counsel to hold and invest the funds required to fulfill the executive retiree healthcare obligation of the State Bar. Staff further recommends that the Board approve the proposed investment policy for the trust.

COMMITTEE RESOLUTION

If the Board Committee on Planning, Program Development and Budget concurs with staff's recommendations, the following resolutions are suggested:

RESOLVED that the Board Committee on Planning, Program Development and Budget recommends that the Board of Governors authorize the Executive Director or her designee to create a trust in a form approved by the Office of General Counsel to hold and invest the funds required to fulfill the retiree healthcare obligation of the State Bar, and

FURTHER RESOLVED that the Board Committee on Planning, Program Development and Budget recommends that the Board of Governors adopt the recommended investment policy for the healthcare trust.

BOARD RESOLUTION

RESOLVED upon recommendation of the Board Committee on Planning, Program Development and Budget that the Executive Director or her designee is authorized to create a trust in the form approved by the Office of General Counsel to hold and invest the funds required to fulfill the retiree healthcare obligation of the State Bar, and

FURTHER RESOLVED upon recommendation of the Board Committee on Planning, Program Development and Budget that the investment policy for the healthcare trust is adopted.